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PALESTINE ECONOMIC POLICY  
RESEARCH INSTITUTE (MAS)

## Paper One

International Scientific Symposium

Priorities for Palestine's Economy  
in the Midst of War

# Political Scenarios and Development Strategies for a War-Torn Economy

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## Political Scenarios and Development Strategies for a War-Torn Economy

This is the First Paper in a series of discussion papers prepared for the International Academic Symposium "Priorities for Palestine's Economy in the Midst of War" scheduled for December 4, 2024. These papers reflect on optional scenarios for the post-war phase, including Palestinian governance strategies, immediate socio-economic challenges and priorities, and the (legal, institutional and political) tools at the disposal of the Palestinian people to actively determine their future. They will also analyze the economic policies and strategies that are needed to support Palestine's struggle for independence, focusing on self-sufficiency, economic resilience and productive capacity, trade expansion and market diversification and sustainable growth. The issues also include concern about how to strengthen the social contract in Palestine, focusing on how governance, economic policies, and social services can be aligned to meet public expectations and foster social cohesion.

**These series of papers are prepared with the generous support of MAS's Partners, and reflect the opinions of the authors.**



## 1. Prelude: Palestinian development strategies on the eve of war

For many years prior to the war that erupted on 7 October, Palestinian economic and social policy had accommodated the lack of a horizon for political progress toward the two-state solution and become largely confined to the limited toolbox of non-sovereign functions available since the Oslo/Paris framework became the *de jure* reference (and ceiling) for development prospects. This applied equally to both regions of the politically divided occupied Palestinian territory (oPt), the Gaza Strip and West Bank, each according to the degree permitted by political and economic relations with the occupying power and the economic doctrine of the governing parties in each region. Coherent, proactive development policy in the conventional sense of the term has largely been out of reach and only recently has the stalemate produced by Oslo been challenged by local and international critiques of the structural impacts of prolonged occupation.

While the Palestinian National Authority (PNA) designed over the years a series of politically ambitious and technically proficient development plans for the oPt under themes suited to a non-sovereign governance agenda, its resources, reach and efficiency remained below expectations and the best laid plans. By 2023 the PNA had prepared a six-year development plan based on “resilience and self-reliance” to withstand, but not reverse, a presumed indefinite occupation. It pursued donor funded template development programs in “feasible” areas such as financial inclusion, green economy, women and youth economic empowerment, SME upgrading and cash transfer programmes. None of this, however, could contribute to economic emancipation from colonial economic dependencies, which were only strengthened even as the PNA advocated for disengagement. Meanwhile, in the Gaza Strip, the PNA institutions ruled there by Hamas also accommodated with a combination of Israeli siege and occasional economic facilitation tactics, while its private sector survived under a distorted, if highly regulated and small local economy. However, at the same time the ruling party was effectively developing a military-industrial capacity to wage war, with a potency that has produced devastating retaliatory outcomes that few if any could have assumed Israel was capable of.

In so many ways, the last year and more of war has upended not only the immediate physical, human, social and economic landscape and imposed a range of urgent relief and rehabilitation priorities even before recovery or reconstruction can be envisaged. But it also means that this is no longer an economy suited to textbook or template policy formulae, as time has shown that orthodox economic and social theory cannot always be usefully resorted to in addressing the economics of settler colonial domination, not to mention a genocidal war. A return to pre-2023 economic doctrines, institutions and policy tools is not only unlikely and unfeasible as the balance of asymmetric forces engaged has so fundamentally shifted, but is also undesirable. It would most likely entrench a trajectory akin to that projected by international agencies, which foresee many decades of recovery and rebuilding under continued occupation and denial of self-determination, a prospect that Palestinians universally refuse to buy into. Hence this paper candidly addresses the scale of challenges faced, as well as the bold and urgent policy priorities for a war-torn economy struggling to survive and be able to underpin independent statehood.

## 2. Baseline Socio-economic Status after a Year of War

As Israel's war on the Gaza Strip drags on into its second year, the socio-economic consequences have already taken a heavy toll and massive losses on the economy of the oPt. In the Gaza Strip, the Israeli campaign of genocide and ethnic cleansing is causing a human disaster, while the Israeli low-level war on the West Bank continues to dilapidate the overall socio-economic situation.

On the eve of the October 2023, the socio-economic situation in the oPt reflected the negative consequences of the decades-long Israeli military occupation that subjugated the West Bank and the Gaza Strip to Israeli hegemony, turning them into sub-regions within the Israeli economy. The 'interim period' agreed upon in the Oslo Accords that was envisaged to be followed by a 'permanent status' in the end of its five-year duration, 1994-1999, continues to be the state of affairs three decades after the establishment of the Palestinian National Authority, PNA with no discernable path to the end of the status quo of prolonged military occupation.

The 57 years of the Israeli occupation of the West Bank and the Gaza Strip since 1967 and the three decades of the implementation of the Oslo Accords have resulted in the disintegration of the oPt into four disconnected shreds comprising the areas designated as areas A and B in the West Bank under the limited jurisdiction of the PNA, area C comprising two-thirds of the area of the West Bank under full Israeli control, occupied east Jerusalem annexed to Israel, the Gaza Strip that has been subject to Israeli blockade since 2007. Not only did the Israeli occupation cause the disconnection of the oPt with its regional Arab vital sphere, but it also caused the disintegration of the oPt into these four shreds that are disconnected from each other.

## 2.1 The Gaza Strip.

On the eve of the October 2023 war, the Gaza Strip had been going through successive socio-economic shocks that resulted in the reduction of its contribution to the overall GDP of the oPt from close to one-third of GDP in the period 1994-2006 to about 17% of GDP in 2022.<sup>1</sup> Since the Palestinian legislative elections of 2006 and the Hamas coup d'état in 2007, the Gaza Strip was subjected to Israeli blockade and successive Israeli military aggressions in the years of 2008, 2012, 2014, and 2021. The significant decline in the Gaza Strip's contribution to the GDP was the result of the tight blockade imposed by Israel in the Strip since 2007 that led to the deterioration of the economic and social condition in the Strip, where Palestinian refugees represent approximately 70% of the population and the unemployment rate had reached 50% before the October 2023 war, whereby the unemployment rate among the youth had reached approximately 72% before the war.<sup>2</sup>

The Gaza Strip, one of the most densely populated areas in the world with approximately 2.3 million Palestinians living in an area no more than 365 km<sup>2</sup>, was turned into an open-air prison.<sup>3</sup> The humanitarian, environmental, and economic catastrophe that began in the fourth quarter of 2023 has led to the killing and injuring of close to 8% of its total population.<sup>4</sup> In addition to loss of life and human suffering, 86% of the Strip's population were subjected to successive displacements in the form of evacuation orders, expected to seek shelter in 13% of the Strip's land area.<sup>5</sup> The ESCWA-UNDP report estimates that the loss of physical capital comprised the destruction of about 135,000 housing units by May 2024 which amounted to 'domicide'.<sup>6</sup> Physical capital losses include the systemic destruction of the Strip's infrastructure, whereby water, energy, and sanitation infrastructure suffered 67% destruction and damages. In addition to the irreparable damage to ground water quality caused by the release of the untreated wastewater and other pollutants, or the health consequences of lack of access to water and sanitation.

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1 MAS, "Gaza War Economy Brief", October 10, 2023.

2 PCBS.

3 Ilan Pappé, *The Biggest Prison on Earth*, New York: Simon & Shuster, 2019.

4

5 ESCWA-UNDP, "Gaza War: Expected socioeconomic Impacts on the State of Palestine", October 2024..

6 Ibid.

The Israeli scope of destruction did not spare education and health facilities. By the summer of 2024, 88% of school and higher education buildings were destroyed or damaged, 625,000 students lost access to education, while 21 out of 36 hospitals were out of service, and 43% of primary health facilities were not operational.

This situation of the inability of the population to have access to health care, medications, nutrition, and sanitation may cause ‘indirect’ casualties that would raise the total number of deaths to close to 186,000 by the end of the first year of the war, or about 8% of total population of the Gaza Strip.<sup>7</sup> Another estimate of indirect deaths due to these factors by September 2024 is about 119,000: 42,000 direct deaths, 10,000 under the rubble, 62,413 deaths from malnutrition and disease, and a conservative estimate of 5,000 deaths in patients with chronic diseases.<sup>8</sup>

This comprehensive destruction brought the economy of the Gaza Strip to a standstill. The challenges posed by the “day after” are enormous: the needs of 90% of the population of the Strip for relief, basic income, emergency shelter, and health care.

## 2.2 East Jerusalem.

Since 1967, east Jerusalem was subjected to Israeli segregation policies that disconnect it from the rest of the West Bank as it was annexed and brought under the extended jurisdiction of the Israeli municipality, with restrictions imposed on movement and access. The construction of the barrier wall added additional restrictions and impediments causing further deterioration in economic activities, as reflected in the diminishing contribution of the GDP of the oPt from close to 15% in 1990<sup>9</sup> to about 7% in 2022.<sup>10</sup>

The governorate of Jerusalem comprises about half a million Palestinians representing close to 15% of the total population of the West Bank, of which one-third, or about 175,000 are given the status of ‘resident’ in the Israeli-annexed areas (designated as J2 in the PCBS reports), PCBS limits its reporting the other 320,000 or two-thirds of the population of east Jerusalem, (designated as J1). In J1, 41% of households depend on employment in the Israeli economy as their main source of income.<sup>11</sup>

Tourism is the main economic activity. According to the UNDP, 90% of shop owners in east Jerusalem rely on tourism, which has plummeted in the aftermath of the October 2023 war, during which the tourism sector came to a virtual standstill and causing the closure of most of these shops in Jerusalem’s old city.<sup>12</sup> This dire situation is further negatively affected by the Israeli blockade on the areas within the barrier wall under the jurisdiction of the Israeli municipality, impeding commercial activity between Palestinian Jerusalemites and the rest of the West Bank.

Israeli security constraints on movement diminished the volume of trade exchange and purchasing movement. According to MAS, the industrial sector has been adversely affected due to Israeli obstacles on the transport of raw materials from the West Bank. These obstacles negatively affected construction and renovation activities that rely on Palestinian labor from outside Jerusalem.<sup>13</sup>

7 Rasha Khatib, Martin Makee, and Salim Yousef, “Counting the Dead in Gaza: Difficult but Essential”, The Lancet, Issue 10449, July 20, 2024, [www.thelancet.com/journals/lancet/article/PIIS0140-6736\(24\)01169-3/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(24)01169-3/fulltext).

8 Mark Perlmutter et. al. “Letter to President Biden and Vice President Harris”, Gaza Healthcare Letters, <https://www.gazahealthcareletters.org/>

9 UNCTAD, “The Palestinian Economy in East Jerusalem: Enduring Annexation, Isolation, and Disintegration”, Geneva: 2014.

10 PCBS, “Jerusalem Statistical Yearbook, 2024”.

11 Ibid, p. 63.

12 UNDP, “Navigating the Socio-Economic Resilience Journey in Jerusalem Old City”, July 30, 2024, [www.undp.org/arab-states/stories/](https://www.undp.org/arab-states/stories/)

13 MAS, “Palestinian economy and Community in Jerusalem Facing Israeli Occupation Mounting Violations”, January 2024.

These constraints and impediments represent Israel's policy aiming at the ethnic cleansing of the city of its indigenous inhabitants and their displacement,<sup>14</sup> utilizing the state of war to intensify and escalate its campaign of colonizing and Judaizing east Jerusalem.

### 2.3 The Rest of the West Bank.

The expansion of the Israeli settlement project in area C of the West Bank comprising about two-thirds of its total area continues to confine the PNA within areas A and B. The Oslo Accords allowed for full PNA jurisdiction on area A and limited jurisdiction on area B during the Oslo years of the 1990s. The second intifada that erupted in late 2000 after the failure of the Camp David negotiations provided Israel with the pretext to withdraw several aspects of the PNA's jurisdiction over areas A and B.

The past few years witnessed an intensification of restrictions on movement and violence against Palestinian communities and properties by the Israeli settlers as well as by the Israeli security forces on areas A and B, with a focus on the refugee camps. The formation of the present Israeli governmental coalition that resulted from the November 2022 Knesset elections and the eruption of the October 2023 war provided Israel with further pretexts to intensify violence and settlement expansion as well as the expropriation of parts of the PNA's public revenues through the 'clearance' mechanism agreed upon in the Paris Protocol on Economic Relations.

According to the OCHA, areas A and B constituted about 220 enclosures whereby each enclosure is surrounded by area C under full Israeli control, military checkpoints, and settlements. Constraints on the movement of persons and access to markets and places of employment in this 'archipelago' of the Palestinian enclosures under the limited and eroding jurisdiction of the PNA cause further deterioration and decline to economic activities.

Since the beginning of the Israeli offensive of October 2023, the West Bank was placed under comprehensive closure. This led to the suspension of work permits for close to 180,000 workers in the Israeli labor market, depriving the Palestinian economy of about 17% of GNI.<sup>15</sup> Another outcome of the closure imposed on the West Bank since October 2023 has been the interruption and prohibition of the free movement of the Palestinians of 1948 to the West Bank, whose purchases and expenditures contributed the equivalent of about US\$ 1.5 billion, or about 10% of GDP in 2022.<sup>16</sup>

The cumulative effects of these economic shocks during the first year of the October 2023 war led to a decline of real GDP in the West Bank (in constant 2015 US\$ prices) from 13.3 billion in the period of October 2022-September 2023 to 10.4 billion in the period of October 2023-September 2024, equivalent to a 21% decrease; while real GDP per capita (in 2015 prices) in the West Bank decreased from US\$ 4,525 to 3,467 in the same period.<sup>17</sup>

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14 Valerie Zink, "A Quiet Transfer: The Judaization of Jerusalem", *Contemporary Arab Affairs*, volume 2 (1), pp. 122 - 133, <https://doi.org/10.1080/17550910802576148> Shir Hever, "The Separation Wall in East Jerusalem: Economic Consequences", *The Economy of the Occupation*, The Alternative Information Center, AIC, January/February 2007, <https://shirhever.com/wp-content/uploads/2018/01/Bulletin-11-12-Jerusalem-Wall-Economic-Impact>.

15 Walid Habbas and 'Ismat Quzmar, "The Future of Palestinian Employment in the Israeli Labor Market in light of Political and Economic Realities", MAS, July 2022.

16 MAS, "Potential Impacts of Israel's War on the Palestinian Economic Relations Across the Green Line", December, 2023.

17 ILO, op. cit., pp. 4-6.

### 3. Main challenges in the stages of relief, rehabilitation and recovery

Despite the inability to conduct surveys and studies on the ground in the Gaza Strip due to the Israeli non-stop bombardment and blockade. Various regional and international parties do not hesitate to propose estimates of the costs of reconstruction. In the sixth month of the war, the Egyptian president announced, with an eye on the potential role of his country's companies, that the cost of rebuilding the Gaza Strip would reach US\$ 90 billion.<sup>18</sup> The US Rand Corporation, which had published numerous studies on the infrastructure in the oPt over the past decades, has also given another estimate of US\$ 80 billion.<sup>19</sup> These two estimates were given even before the Israeli military expanded its operations and attacked the city of Rafah and its environs. Similarly, estimates on the duration required to clear the rubble before actual reconstruction can begin: according to one UN estimate, it would take 14 years to clear the rubble before construction begins.<sup>20</sup>

It is difficult to take such estimates of the costs of rebuilding and the duration the removal of the rubble seriously as long as they are not based on actual surveys carried out by specialized technical teams on the ground, which remains to be impossible due to the on-going Israeli military occupation. This also depends on the 'day after' and whether Israel will continue to enforce a blockades or limitations on movement and access after the war: according to the UNCTAD, the duration for the rebuilding the Gaza Strip would require about 350 years if Israel would continue to subject the Gaza Strip to its control and blockade.<sup>21</sup>

Since the 1967 Israeli occupation of the West Bank and the Gaza Strip, the economic fabric was subjected to massive distortions caused by Israel's economic policies of "dispossession and pauperization".<sup>22</sup> The cumulative effect of the ongoing economic plunder and exploitation over the decades deprived the oPt of its economic developmental potential. Three decades of autonomy on areas A and B in the oPt did little to achieve structural changes from the path dependence and asymmetric containment.

A review of the economic growth over the period 1968 – 2000 showed that the relatively highest level of GDP and GNI in the oPt in real terms had been achieved at the eve of the first intifada in the mid-1980s, as the economic performance in the 1990s was negatively affected by the frequent and prolonged closure imposed by Israel.<sup>23</sup> The years of the second intifada witnessed a reduction of real GDP, from US\$4.2 billion in 1999 to US\$3.5 in 2002, or a 16% setback.<sup>24</sup> On the eve of the October 2023 war, the oPt went through another setback in the years of the Covid-19 (2019-2121), whereby real GDP plummeted by 12%, and the post-pandemic years of 2022 remained below the 2017/2018 levels.<sup>25</sup>

The economic shocks that resulted from the October 2023 war that were reviewed in the previous section of this paper further delapidated and worsened this volatile economic performance of the setbacks over the past decades. In the second year of the war, the economy of the oPt faces fundamental and serious challenges.

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18 <https://www.alaraby.co.uk/economy/>

19 [Gaza%20rebuild%20estimated%20at%20over%20\\$80%20billion.html](https://www.alaraby.co.uk/economy/gaza-rebuild-estimated-at-over-80-billion.html)

20 <https://www.reuters.com/world/middle-east/un-official-says-it-could-take-14-years-clear-debris-gaza-2024-04-26/>

21 UNCTAD, 2024, op. cit.

22 Yousif Sayigh, A "Dispossession and Pauperization: The Palestinian Economy under Occupation", in George T. Abed, editor The Palestinian Economy, London: Routledge, 1988, pp. 259-286.

23 Sebastien Dessus, "A Palestinian Growth History", Journal of Economic Integration, 2004 19(3), pp. 447-469; see also: Luski I and Weinblatt J, "Macroeconomic analysis of the West Bank and Gaza Strip". Economic Quarterly, 1994, vol 41, pp. 692-711.

24 UNCTAD, "The Palestinian War-Torn Economy: Aid, Development, and State Formation", Geneva: 2006, UNCTAD/GDS/APP/2006/1.

25 IMF, "Report to the AHLC, Sept. 8, 2023.

The immediate and urgent requirements of the 'day after', the provision of nutrition, medicine, health care, emergency transitional shelter, basic incomes, universal social protection ...etc., would require conducting population surveys on the ground to identify the population groups that have displaced from their places of residence and neighborhoods, their gathering places, emergency needs, and other requirements, which will again require free movement and access by local, regional, and international bodies that would carry out these activities.

Equally important, there is an urgent need to work on serious considerations of the issues related to the parameters, structure, and processes of the rebuilding of the Gaza Strip economy in the post-war phases, so that efforts related to humanitarian relief and reconstruction can be directed to serve the objectives of a nationally adopted Palestinian development vision the works to re-integrate the economy of the Gaza Strip in the economic and institutional structure of the oPt.

A second challenge will be addressing the higher levels of unemployment in the West Bank, where the access to the Israeli labor market is likely to remain restricted in the foreseeable future. In the aftermath of the October 2023 war, due to the suspension of Israeli work permits for about 165,000 thousand laborers, the loss Gaza Strip's contribution to GDP, the loss of considerable portions of the PNA revenues due to Israel's policies in retaining almost half of the "clearance revenues" agreed upon in the Paris Economic Protocol, public and private consumption plummeted, causing a downward spiral that pushed domestic employment downwards. According to the ILO, unemployment in the West Bank rose to 25% by September 2024.<sup>26</sup>

A third challenge will be the need to address the repercussions resulting from the receding public revenues due to the reduction of public and private consumption and the loss of transfers and ongoing closure preventing the Palestinians of 1948 from accessing the West Bank markets.

A fourth challenge will be addressing the threats facing the stability of the banking sector that lost all its business in the Gaza Strip, facing the threat of severing relations with Israeli correspondent banks, and facing the accumulation of excess Israeli currency due to Israeli punitive and unilateral actions.

In the past few years, the West Bank was facing a warlike situation due to the belligerent attacks by militant Israeli settlers, attacks by the IDF on Palestinian communities, especially in the refugee camps, and creeping ethnic cleansing of Bedouin and rural communities. This warlike situation was intensified with the formation of the present Israeli ruling coalition, and especially in the aftermath of the October 2023 war. Since the source of legitimacy of any political entity is based on its ability and capacity to provide protection and human security, the PNA needs to address a serious challenge relating to its governance, representativeness and legitimacy.

Since the establishment of the PNA, and especially during the two decades that followed the second intifada, the PNA's economy persistently faced two main deficits in its fiscal balance and in its balance of trade. Subsequent PNA governments resorted to prioritizing the partial financing of its fiscal balance deficit through the expansion of the encouragement of imports as a source of public revenues through the clearance revenues,<sup>27</sup> to the detriment of the domestic productive activities in agriculture and industry. A main challenge facing the PNA will be the need to reformulate its trade liberalization economic policies to serve the enhancement and protection of domestic productive activities.

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<sup>26</sup> ILO, Oct 2024, op. cit.

<sup>27</sup> Dependence on clearance revenues increased from 54% of public revenues in 1996 to 67% in 2022. PCBS.



#### 4. Priorities and feasible policies to protect economy, maintain its resilience and absorb shocks, until recovery

The Israeli ongoing genocide in the Gaza Strip and the warlike situation in the West Bank are embarking on their second year, causing more death and destruction in the Gaza Strip with the implementation of the 'Generals Plan'<sup>28</sup> enforcing more killings, starvation, and the ethnic cleansing of the northern part of the Strip, while gradually implementing the 'Decisive Plan'<sup>29</sup> in the West Bank. And yet, the performance of the PNA continues to be 'business as usual'.

The capacity to formulate and implement feasible policies for war-torn economies require the recognition of a state of conflict, violence, and war in order to address the challenges related to the protection of the citizens, the social fabric, and to safeguard the community by providing it with the socio-economic tools for steadfastness, sumud.

Chapter VII of the Palestine Basic Law of 2003 specifies the processes, procedures, and limitations related to the declaration of a 'state of emergency' in articles 110 through 114. Article 110 provides the justification of the declaration of a state of emergency in the cases of: "...a threat to national security cause by wars, invasion, armed insurrection, or in times of national disaster", while article 111 confirms the protection of fundamental rights and freedoms when declaring a state of emergency except "...to the extent necessary to fulfil the purpose set forth in the decree declaring the state of emergency".<sup>30</sup>

The PNA had declared a 'state of emergency' in March 2020 due to the Covid-19 pandemic, which was extended for several months into 2021. The present situation in the second year of the October 2021 war necessitates the adoption of special policies and arrangements to confront the existential threats facing the Palestinian entity in the oPt.<sup>31</sup> A declaration of a state of emergency would provide the PNA with special powers that will be needed to formulate and implement adequate policies and measures to address challenges and newly-defined priorities.

In the second year of the war, the PNA is bound to recalibrated its approaches and handling of such diverse issues as public revenues, public expenditures, domestic production and consumption, the direction prioritization of donor assistance, its public sector as represented by the Palestine investment Fund, ...etc. The present and imminent danger of genocide and ethnic cleansing in the Gaza Strip, and expanding violence and economicide in the West Bank necessitate a more robust and transformative role of the PNA in economic policy-making and implementation.

Each of these economic issues requires an in-depth review that exceeds the limitations of this presentation. The extent to which the PNA would expand and enhance its role in the restructuring and implementation of its policies depend on the way in which the war would come to an end and the military operations come to a standstill. Various local and international institutions are suggesting multiple scenarios for the 'day after', with no clear or realistic expectation as to when

28 Leonie Fleischmann, "Israel's General Plan to Clear Palestinians from North of Gaza Could Pave the War for Settlers to Return", 28 October, 2024, <https://www.city.ac.uk/news-and-events/news/2024/october/israel-generals-plan>.

29 Bezalel Smotrich, "Israel's Decisive Plan", [hashiloach.org.il](https://hashiloach.org.il), <https://hashiloach.org.il/israels-decisiveplan>; Sam Sokol, "Smotrich urges ramping up West Bank, Gaza settlements, pushing Palestinians out", *The Times of Israel*, 28 October, 2024.

30 <https://security-legislation.ps/latest-laws/the-amended-basic-law-of-2003/>

31 In the aftermath of the second intifada two decades ago, Daoudi & Khalidi wrote: "The need for a proper conceptualization of the Palestinian economy's development predicament cannot be over-emphasized. As shown below, such a conceptualization contrasts the claims of the automatic benefits conferred by unfettered liberalization, and highlights the necessity of tailoring the development process to the economy's present distinctive features and institutional set-up", Hanna Daoudi & Raja Khalidi, "The Palestinian War-Torn Economy", *a contrario*, vo. 5 (2), 2008, pp. 23-36.

that 'day after' would come.<sup>32</sup> The unavoidable fact is that the ruling Israeli coalition, which is likely to preserve its hold on power until the forthcoming Israeli elections in 2026, is clear on its policy objective of 'total victory'. Even if and when the Israeli military operations in the Gaza Strip would come to an end, the Israeli ruling coalition is likely to continue to maintain its blockade on the Strip and severe restrictions and closures on areas A and B in the West Bank.

In this context, the coming year or two may witness an extension of the ongoing military operations in the Gaza Strip and of the implementation of the Israeli 'decisive' plan in the West Bank. This will entail two immediate conclusions: 1) that the process of full-scale humanitarian relief in the Gaza Strip will not begin in the near future; and 2) that the PNA in areas A and B in the West Bank will continue to be subjected to Israeli closure, suspension of work permits in the Israeli economy, diminished public revenues, restrictions on movement and access, stringent trade barriers...etc. It is this set of prospects that the PNA need to deal with in the immediate future as it reviews and restructures its economic policies.

These grim prospects and challenges cannot be adequately dealt with the 'business as usual' mode of action. The specific and realist needs of war-torn societies "... include the establishment of a functioning state with the capacity to control its finances, social programs and institutional decision-making, policies which acknowledge the role that shadow economies play, and greater support for regional approaches to security and development".<sup>33</sup>

The establishment of a functioning state apparatus with these capacities is also a prerequisite in the less-likely prospect of a cessation of military operations and the launching of a negotiated settlement process in the near future. This relatively optimistic prospect would bring about the launching of a full-scale humanitarian relief effort in the Gaza Strip, and the mitigation of the Israeli policies and practices that are strangling the economy of the West Bank, and the gradual transformation of the path of state-building in the oPt from the client state model to the developmental state model.<sup>34</sup> This ambitious prospect, to be termed here as the 'restorative' prospect, however, "... can only be realized if Israel is willing to acknowledge previous agreements and pending obligations towards the Palestinian economy and territory as the baseline for a Palestinian statehood horizon, just as all parties had agreed until they were suspended since the last Agreement on Movement and Access following the Israeli disengagement from Gaza Strip in 2005".<sup>35</sup>

#### **4.1 Economic Priorities in the Restorative Prospect**

As outlined above, in the 'restorative' prospect, denoting an internationally sponsored negotiations on the Israeli military operations would come to an end, the Israeli blockade on the Gaza Strip would be lifted, the implementation of the 'decisive' plan in the West Bank would be suspended, Israeli restrictions on movement and access in areas A and B would be mitigated settlement process would be launched, and partial Palestinian access to the Israeli labor market would be opened up.<sup>36</sup>

32 "We have been here before too many times over a century of struggle between the potent idea of "Palestine" and its people's national rights, and that of the ever-expanding, increasingly aggressive, Zionist national project manifested in the State of Israel", Raja Khalidi, "Day-After in Palestine: 1937-2024", <https://www.securityincontext.com/posts/day-afters-in-palestine-1937-2024>

33 Kaysie Studdard, "War Economies in a Regional Context: Overcoming the Challenges of Transformation", International Peace Academy, New York: 2004, /War%20economies.pdf.

34 Mushtaq Khan, "Evaluating the Emerging Palestinian State: 'Good Governance' versus 'Transformation Potential'", State Formation in Palestine: Viability and Governance during Social Transformation, Mushtaq Khan, George Giacaman, and Inge Amundsen, eds. London: Routledge, 2004, pp. 13-62.

35 Raja Khalidi and Anmar Rafidi, "Palestine's Economy: No Calm After the Storm", tragedies of Regional Conflicts and Promises of Peace Building, p. 12, 2024, erf.org.eg

36 A joint UNDP-ESCWA report suggests three scenarios at the end of the war: no early recovery, restricted recovery, and non-restricted recovery. UNDP-ESCWA, op. cit.

In this scenario, the PNA could begin with turning the economic policy that it had maintained and applied throughout the past two decades upside-down, i.e., from the dependence on the liberalization of trade and imports to increase clearance revenues, to an economic policy that supports domestic productive activities, import-substitution, investment in human capital development.

The prerequisite for the PNA capacity to carry out such economic interventions will be the mobilization of the efforts of the international community that would sponsor this process to enforce the implementation of all arrangements and steps agreed upon in the signed Oslo Accord. In this context, the International Quartet's Road Map (which was adopted in UNSC resolution 1515), calls upon Israel, in phase one of the Road Map, to "... help normalize Palestinian life... restore the status quo that existed (in 28 September 2000)... Israel also freezes all settlement activities".<sup>37</sup> This pre-September 2000 status quo comprises a Gaza Strip that is not subjected to blockade, a functioning safe passage between the Strip and the West Bank, the dismantling of hundreds of Israeli military checkpoints, the mitigation of restrictions on movement and access, the reinstatement of Palestinian labor in the Israeli economy, ...etc.

These steps and measures that are within the limitation of the signed accords would reinvigorate economic activities in the oPt, allow for unhindered flow of material and humanitarian assistance to the Gaza Strip, and increase public revenues through the 'normalization' of economic activities. This internationally sponsored process would also involve the regeneration of international assistance and create a normalized environment that would be conducive to the encouragement of domestic and foreign investment.

#### 4.2 Economic Priorities in the Status Quo

The status quo necessitates invoking a state of emergency in the oPt in accordance with the relevant articles in the Palestinian Basic Law. Governments declare a state of emergency when it identifies "...imminent danger to the life of the nation... governments call states of emergency (to Invoke) the additional powers ...necessary to act with speed and due diligence to save people and alleviate the social and economic consequences of emergencies".<sup>38</sup> Levels, scope, and modes of government intervention in a state of emergency depends on the size of impact: partially/fully localized incidents, widespread/severe disaster, or extremely large in physical/social sphere.<sup>39</sup> Thus the size of response would utilize mainly local resources, inter-governmental/multi-agency response, or major national and international resources and coordination involving massive challenges and significant long-term effects.<sup>40</sup>

The perpetuation of the status quo in the West Bank requires the formulation of economic policies of sumud to confront the existential threats to the PNA comprising: the re-prioritization of expenditures, the re-allocation of resources, stringent austerity measures in public expenditures, the expansion of social security coverage.

One of the multiple areas needing immediate intervention is in the deteriorating situation in food and nutritional security. A recent MAS report highlights the imminent threat of famine

37 <https://www.hlrn.org/img/documents/The%20roadmap.pdf>

38 Christian Bjornskov and Stefan Voigt, "Why Governments call a state of Emergency?", *European Journal of Political Economy*, vol 54 Sept 2018, pp. 110-123. This and other sources in this issue note the risk of encroachment on the balance of the executive, legislative, and judiciary branches of governance, which is not applicable in the oPt since the dissolution of the Palestinian Legislative Council in January 2019.

39 David Alexander, "Disaster and Emergency Planning for Preparedness, Response, and Recovery", 3 September 2015, <https://doi.org/10.1093/acrefore/9780199389407.013.12>

40 Ibid.

and acute malnutrition in the Gaza Strip as well as the consequences of increasing rates of poverty, unemployment, and expanding settler aggression in the West Bank.<sup>41</sup> In this context, a governmental program for immediate action is called for the expansion of social security protection and coverage, enhancement of food production, the support and protection of domestic food industries, financing mechanisms and instruments for the expansion of agro-industries, and robust anti-dumping measures to reduce the predominance of Israeli products in the domestic markets. The Israeli hostile measures against the UNRWA and its activities will require additional efforts by the PNA to address deficiencies and needs as part of its 'state of emergency' measures.

The cumulative effects of the perpetuation of the status quo in the coming year or two will place additional obstacles confronting centralized governmental activities. In this dire state of affairs, recalling the Palestinian national experiences in the 1970s and 1980s that confronted harsh Israel policies with a national *sumud* strategy and action.<sup>42</sup> The Palestinian national experiences in the first intifada provide us with guidance on the collective practices of *sumud*,<sup>43</sup> which centered around reviving household economies, cottage industries, and 'victory gardens', the expanded roles of non-governmental organization, cooperatives, and syndicates.<sup>44</sup> These years also witnessed the proliferation of micro-project financing institutions that assisted the propagation of SMEs.

The lessons of the first intifada are neither exceptional nor unique. In this context, the challenges that confront governmental action in the status quo in the oPt justify the expansion of the role of civil society and localizing development. World Bank's report on experiences in localizing development, participatory development, and decentralization exposes rich experiences related to the multiple approaches that respond to developmental impediments and obstacles, whereby central governments and donors can play a pivotal role in guiding localized endeavors to serve nationally preferred trajectories of change.<sup>45</sup>

### 4.3 Immediate Policy Prospects

Strategic policy goals for a war-torn developing economy will remain pertinent, such as promoting innovation and industrial policy, intensive domestic productive investment and restoring food security and social justice. However, the hostile conditions of military occupation, at the very least, will constrain designing or trying to adhere to a coherent "development strategy". For the immediate stage, subsistence, survival and recovery are the only socio-economic horizon.

The likelihood of the perpetuation of the present state of affairs of continued Israeli military offensive and blockade on the Gaza Strip and the imposition of closures and restrictions on areas A and B in the West Bank is subject to the stability of the present ruling coalition in Israel which mandate extends to November 2026. An end to the ongoing war that began in October 2023 can only be imposed by an international community that has so far carried out inefficient efforts to do so. Facing these considerations, the economic policies of the PNA will need to be reformulated so as to adequately and effectively address existential threats.

41 MAS, "Food Insecurity Bulletin", issue # 30, October 2024. See also: Fathi Nimer, "Food Sovereignty in a Resistance Economy", Al Shabaka, 27 August 2024 (Arabic).

42 Judith Gabriel, "The Economic Side of the Intifada", *Journal of Palestine Studies*, 1988, vol 18, issue 1, pp. 198-213.

43 According to Malaka Shwaikh, *sumud* is to be differentiated from resilience: "Unlike the imposed nature of resilience, *sumud* is a choice. It is about knowingly and willingly choosing to resist... Rather than bending in an attempt to accommodate in a situation framed by a resilience discourse", in: "Beyond Expectations of Resilience", *Global Studies Quarterly*, 2023, vol, 17, pp. 1-13; see also, Malaka Shwaikh, "Against Resilience", *London Review of Books*, 23 January, 2024.

44 Tariq Dana, "A Resistance Economy: What is it and can it Provide an Alternative?", Rosa Luxemburg Stiftung, Pal Papers, November 2014.

45 Ghazala Mansuri and Vijayendra Rao, "Localizing Development: Does Participation Work?", The World Bank, Washington D. C.: 2013.

The total destruction of the economy of the Gaza Strip, and in the West Bank the cumulative effects of the increase in the rates of unemployment and poverty, diminished governmental revenues, reduction in public and private consumption, and intensified attacks by settlers is causing a downward spiral with scanty prospects for mitigation or alleviation pose threats and challenges that the PNA has not encountered throughout the past three decades – neither during the second intifada nor during the Covid-19 pandemic.

In the past few years, the capacity of the PNA to provide security and protection for its constituency in the West Bank has been eroding due to antagonistic Israeli policies; the war of the October 2023 led further erosion and deterioration endangering its legitimacy, representativeness, and governing capacity. A robust and operable set of policy measures and steps taken by the PNA is exceedingly needed to deal with these challenges.

In the absence of an internationally enforced and sponsored process that would put an end to the military operations and launch a process for a negotiated settlement, the PNA will need protect and safeguard its body politic through the reformulation of its economic policies, objective, priorities, and the allocation of resources to enhance the steadfastness of its citizenry, prioritizing self-reliance, social protection, reduction of poverty and unemployment, productive activities, participatory and localized development.

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